FUNCTION 650: SOCIAL SECURITY

Social Security is the largest spending program in the budget, with outlays of $426 billion in 2001. Benefits are paid from the Social Security trust funds and financed by payroll taxes. For purposes of the Budget Enforcement Act, the Social Security trust funds are off-budget and do not count toward surplus projections. However, the administrative expenses of the Social Security Administration are within the caps on overall discretionary spending.

($ Billions)

	1999 Actuals	2000	2001	2002	2003	2004	2005
President's Budget:							
Budget authority	391.1	408.0	427.0	447.9	470.5	495.2	522.0
Outlays	390.0	406.6	425.7	446.6	468.9	493.4	520.0
OMB Baseline:							
Budget authority	391.1	408.0	427.1	448.1	470.7	495.4	522.2
Outlays	390.0	406.6	425.6	446.5	468.8	493.3	519.9
Budget compared to OMB Baseline:							
Budget authority	---	---	-0.1	-0.2	-0.2	-0.2	-0.2
Outlays	---	---	0.1	0.1	0.1	0.1	0.1

<u>Baseline Spending</u>

Under current law, Social Security spending increases an average of 5.0 percent annually over the 2000 to 2005 period.

< The budget assumes a cost-of-living increase for Social Security benefits of 2.5 percent in January 2001.

< According to the 1999 Trustees' Report, the Social Security trust funds are projected to be depleted in 2034, and Social Security revenues will fall short of spending beginning in 2014.

<u>The President's Radical $34 Trillion Income Tax Hike for Social Security</u>

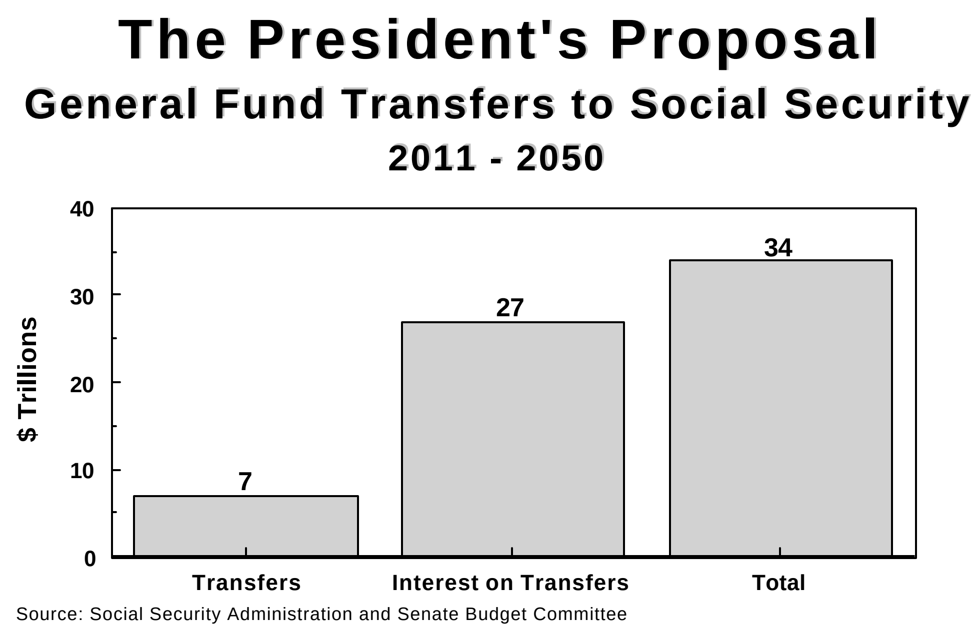
< The President has proposed to radically transform the financing of Social Security without ever saying so to the American people.

  – Since its enactment in 1935 under President Franklin Roosevelt, Social Security has always relied on payroll taxes deposited into the Social Security trust funds to pay benefits.

– As predicted by President Roosevelt, this direct link between payroll taxes and benefit payments has made Social Security different than welfare programs.

-- With Social Security, workers can rightly feel as if they earned their benefits by making payroll contributions to the trust fund.

< President Clinton, with a massive shell game, proposes to undo this 65 year record of success and radically change how Social Security is financed.



< Instead of proposing changes in Social Security to keep payroll taxes and benefits balanced, as other Presidents have done, President Clinton chose a sleight of hand.

< Between 2011 and 2050, the President proposes to transfer $34 trillion in general funds to the Social Security trust funds.

– These transfers are simply IOUs that the general fund will have to buy back with cash at a later date when the trust funds need the money to pay benefits.

< The President says these transfers are equal to the interest savings in the budget from reducing the debt by the amounts of the Social Security surpluses.

< But, of course, Social Security already earns interest on its surpluses, so this is just another form of the "double counting" that went on in last year's budget.

< Moreover, in the legislative proposal the President sent to Congress, there is no connection between making the general fund transfers to Social Security and the level of the debt or budget surpluses.

-- In fact, under the President's plan, the general fund would make the same transfers to Social Security if the budget were in surplus or deficit.

< The only real effect of this proposal is to impose a hidden, $34 trillion tax hike on future taxpayers who will be asked to redeem the IOUs given to Social Security.

-- This income tax infusion would forever break the link between payroll taxes and benefits that has made Social Security strong and resilient for over six decades, perhaps undermining Social Security's strong political support across all generations.

<u>What Others Are Saying About the President's Plan</u>

< Here is a sampling of the many critical comments made about the President's proposal by those who know it best:

"[President Clinton's Social Security proposal] does not come close to 'saving Social Security'...Under the President's proposal, the changes to the Social Security program will be more perceived than real: although the trust funds will appear to have more resources as a result of the proposal, nothing about the program has changed".
GAO Comptroller General David Walker, Senate Budget Committee, February 1999

"...The President also has a great deal of pain in his plan – a hidden pain in the form of income tax increases that will be borne by future generations of Americans. I strongly disapprove of a plan that provides a false sense of complacency that Social Security has been saved by this nebulous and vague idea of 'saving the surplus' – while failing to disclose the real pain that will be imposed on future generations."
Senator Bob Kerrey, March 17, 1999

"I would very much prefer that we did not move in the direction of general revenues because in effect, once you do that, then you've opened up the system completely and the issue of what SS taxes are becomes utterly irrelevant. .. And I'm not terribly certain that serves our budgetary processes in a manner which I think is appropriate."
Federal Reserve Chairman Alan Greenspan, Senate Banking Committee, July 1999

"Stripped of accounting complexities, however, the plan amounts to this: bailing out Social Security with future general taxpayer funds."
Alan Murray, The Wall Street Journal, March 29, 1999

"During the deliberations of the 1994-1996 Social Security Advisory Commission, we considered whether general revenues should be used to help shore up the Social Security program. This idea was unanimously rejected for a number of reasons... there are serious drawbacks to relaxing SS' long-run budget constraint through general revenue transfers."
Federal Reserve Board Member Edward Gramlich (Chairman of the 1994-1995 Social Security Advisory Council), Senate Finance Committee, February 1999

"...we do not agree that [the President's] plan to credit Social Security with new Treasury IOUs representing interest savings from presumed debt reduction does anything to save the program...All it does is simply paper over Social Security's looming shortfalls."
The Concord Coalition, Press Release, September 27, 1999

"My own assessment is an additional transfer from the government's left hand (Treasury) to its right hand (Social Security)...tends to mask too much. The simple fact is that future taxpayers must cover the cost of the interest and principal on any gift of bonds from Treasury to Social Security."
Gene Steuerle, Senior Fellow, The Urban Institute**,** Senate Finance Committee, February 1999

<u>Other Legislative Proposals</u>

< The budget includes several legislative proposals that will have relatively minor interactions with Social Security spending, including the proposal to allow persons age 55 to 65 to buy into Medicare.

<u>Administrative Expenses</u>

< The budget requests a 9 percent increase in funding for the administrative expenses of the **Social Security Administration** (SSA), from $6.6 billion in 2000 to $7.1 billion in 2001.

– $65 million of the increase will go toward **continuing disability reviews**, a 17 percent increase over 2000 funding of $385 million.

< SSA full-time equivalent employment is projected to decrease by 210 workyears, from 63,350 in 2000 to 63,140 in 2001.